



KENTUCKY RETIREMENT SYSTEMS

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MEMORANDUM

Date: April 26, 2016

To: Investment Committee of the Board of Trustees

From: Ann M. Case, CGAP, CRMA
Director of Investment Operations

Re: **Investment Fees and Expenses**

Attached you will find an Investment Fees and Expenses Report for the nine month period ending March 31, 2016. Effective March 2015, KRS implemented a financial statement change to report investment fees separate from net asset values. This change helps KRS better monitor fees by manager and provides further transparency in Investment Operations. The fees are shown by asset class and fiscal year for comparative purposes. The following highlights provide additional variance explanations:

- Absolute Return, Real Estate, and Real Returns expenses show a year over year increase. However, this change (shift from net asset value to gross investment fees) is the result of continued improvement in data sent to our custodial bank during 2016 compared to the 2015 implementation period.
- Fixed Income expenses have decreased as a result of a smaller asset base.
- Private Equity experienced a decrease fees in the Pension Plans while fees increased in the Insurance Plans. The decrease in the Pension Plans was related to a decline in overall asset base and less distributions. On the Insurance Plans, Private Equity has increased as a result of additional investments in this asset class.
- Public Equity has seen an increase in internally managed funds for the period resulting in lower management fees.

KENTUCKY RETIREMENT SYSTEMS

Investment Fees and Expenses

For the Nine Months Ended March 31, 2016-2015

Pension Fund									Insurance Fund								
	2016 FYTD Fees	% of MV	Market Value	FY Returns	2015 FYTD Fees	% of MV	Market Value	FY Returns		2016 FYTD Fees	% of MV	Market Value	FY Returns	2015 FYTD Fees	% of MV	Market Value	FY Returns
Absolute Return	\$ 5,336,364	0.46%	\$ 1,160,044,692	-6.68%	3,974,083	0.32%	1,251,418,424	2.72%	Absolute Return	1,963,576	0.45%	438,471,872	-6.60%	1,368,204	0.32%	432,655,954	2.78%
Investment Advisory Fees	5,007,475				3,974,083				Investment Advisory Fees	1,846,341				1,368,204			
Performance Fees	112,622								Performance Fees	32,610							
Other Fees and Expenses	216,267								Other Fees and Expenses	84,625							
Fixed Income	\$ 4,920,101	0.35%	1,396,092,135	2.21%	7,413,467	0.34%	2,200,094,955	2.22%	Fixed Income	1,792,577	0.38%	473,917,370	2.29%	2,600,393	0.31%	829,734,317	0.98%
Investment Advisory Fees	\$ 4,179,921				7,140,249				Investment Advisory Fees	1,474,343				2,485,939			
Performance Fees	\$ 736,535				243,745				Performance Fees	315,658				104,462			
Other Fees and Expenses	\$ 3,645				29,472				Other Fees and Expenses	2,577				9,992			
Private Equity	\$ 19,348,701	1.77%	1,095,180,573	4.52%	34,991,307	3.09%	1,131,499,460	4.76%	Private Equity	10,602,489	3.31%	320,708,580	7.75%	9,633,119	3.65%	263,713,573	8.73%
Investment Advisory Fees	\$ 7,277,229				10,283,010				Investment Advisory Fees	3,003,531				3,770,470			
Performance Fees	\$ 9,034,546				22,185,720				Performance Fees	6,623,901				5,184,487			
Other Fees and Expenses	\$ 3,036,925				2,522,578				Other Fees and Expenses	975,057				678,162			
Public Equity	\$ 7,337,669	0.13%	5,533,715,876	-4.79%	9,774,947	0.19%	5,028,719,742	0.26%	Public Equity	2,752,366	0.12%	2,291,418,490	-4.33%	3,990,025	0.20%	1,965,617,771	0.59%
Investment Advisory Fees	\$ 7,321,591				8,886,361				Investment Advisory Fees	2,744,203				3,646,346			
Other Fees and Expenses	\$ 16,078				888,586				Other Fees and Expenses	8,163				343,679			
Real Estate	\$ 8,801,614	1.71%	513,239,160	7.11%	5,147,136	0.88%	581,643,793	5.67%	Real Estate	3,202,758	1.54%	208,268,697	7.67%	2,164,924	0.95%	226,925,861	6.42%
Investment Advisory Fees	\$ 4,041,425				2,632,241				Investment Advisory Fees	1,647,491				1,022,344			
Performance Fees	\$ 3,356,701				455,678				Performance Fees	1,414,552				266,719			
Other Fees and Expenses	\$ 1,403,488				2,059,217				Other Fees and Expenses	140,715				875,862			
Real Return	\$ 4,591,355	0.52%	881,209,230	-4.35%	2,267,636	0.20%	1,108,700,252	-3.57%	Real Return	1,803,352	0.54%	332,180,733	-3.62%	1,542,425	0.39%	392,483,193	-3.38%
Investment Advisory Fees	\$ 3,510,424				1,769,720				Investment Advisory Fees	1,363,715				1,105,992			
Performance Fees	\$ 576,078				485,891				Performance Fees	232,333				195,961			
Other Fees and Expenses	\$ 504,853				12,025				Other Fees and Expenses	207,304				240,472			
Cash	\$ 156,509	0.08%	200,387,033	0.20%	53,702	0.02%	240,299,904	0.11%	Cash	58,019	0.07%	79,360,341	0.20%	18,928	0.03%	75,293,970	0.16%
Other Fees and Expenses	\$ 156,509				53,702				Other Fees and Expenses	58,019				18,928			
Total Investment Mgmt Fees	\$ 50,492,313	0.47%	10,779,868,699		63,622,277	0.55%	11,542,376,531		Total Investment Mgmt Fees	22,175,138	0.54%	4,144,326,083		21,318,018	0.51%	4,213,508,928	
Other Investment Fees	\$ 2,115,606		-	-	1,524,842		-	-	Other Investment Fees	1,008,003				668,963		-	-
Consulting	\$ 917,304				916,846				Consulting	342,035				322,915			
Trustee	\$ 670,144				469,324				Trustee	427,240				333,472			
Securities Lending Fees	\$ 499,918				340,947				Securities Lending Fees	158,669				118,737			
Securities Lending Rebate	\$ 28,239				(202,274)				Securities Lending Rebate	80,058				(106,160)			
Manual Accruals									Manual Accruals								
Total Investment Expenses	\$ 52,607,919	0.49%	10,779,868,699		65,147,118	0.56%	11,542,376,531		Total Investment Expenses	23,183,140	0.56%	4,144,326,083		21,986,981	0.52%	4,213,508,928	

Definitions

Other Fees and Expenses	Fees charged by managers to administer the investment of funds.
Investment Advisory Fees	Fees that are allowed when managers exceed contracted returns.
Performance Fees	Fees paid to outside investment consultants
Consulting	Fees Paid to Custodial Bank
Trustee	Fees Paid on Securities Lending transactions
Securities Lending Fees	Rebates Paid on or Received from Securities Lending transactions
Securities Lending Rebates	Manual Accruals or adjustments made at Year End
Manual Accruals	